
Financing the Department of Civil Service

MEMORANDUM

TO: Chief Financial Officers
All Departments and Agencies

FROM: John J. Linderman, Director
Office of Financial Management

DATE: April 1, 1998

SUBJECT: Financing the Department of Civil Service; Restrictively Financed Payroll Expenditures on which 1% is due

The purpose of this memorandum is to clarify State policy that is designed to ensure that the constitutionally-required "1% civil service assessment" is appropriately charged to all State departments and agencies. This guidance must be reviewed in relation to the federal cost recovery processes used by your department as well as the detail assessment provided by the Department of Civil Service for your department/agency.

Legal Basis and Process for Administering the Annual Assessment

State Law requires that "All restricted funds shall be assessed a sum not less than 1% of the total aggregate payroll paid from those funds...for the preceding fiscal year...in accordance with ... the state constitution. This includes ... restricted funds appropriated in ... any appropriations bill." Any extra collections as a result on this minimum charge are to be returned to the originating sources.

The Department of Civil Service, in coordination with the Department of Management and Budget, complies with this requirement through the combination of:

1. An annual "direct billing" to all state departments and agencies based on payroll costs financed by **State restricted sources**. This billing is prepared by the Department of Civil Service using an analysis to total payroll costs financed by each department using non-federal restricted funding sources, **as identified by the D-23 funding source**.
2. The inclusion of civil service expenditures as an allowable cost that is allocated through the Statewide Cost Allocation Plan (SWCAP). These costs are then partially recovered by departments using federally negotiated indirect cost rates. Proceeds from the application of these rates must be credited, in full, as general purpose revenue, (which is legislatively-appropriated to the Department of Civil Service).

Potential Issues related to the Assessment

Given the combination of both direct billing (for State restricted financing) and indirect recovery (for federal financing), all departments and agencies must carefully review their annual assessment to ensure that the State of Michigan does not finance any of the Civil Service direct assessments using federal financing, either directly or indirectly. This is a particular risk when

federal financing is transferred from one State department to another as an interdepartmental grant (IDG), or within a department as an intra-departmental transfer of financing. If your review discloses that any of the amounts "directly" assessed by the Department of Civil Service are for costs that are federally-financed (in whole or in part) as either a direct or indirect cost, please notify the Department of Management and budget (DMB) Office of Financial Management, DMB Office of Budget Development and the Department of Civil Service. As the departmental charge is to be against the same restricted source, this could inappropriately charge the federal government. The notification must include a brief narrative identifying:

- the applicable federal program and billing process, and
- whether indirect costs (including your SWCAP allocation containing civil service related costs) are routinely recovered and credited as general purpose revenue.

In a few limited instances, federal financing of the direct civil service assessment will be allowed (as in the past) if the civil service related costs are not recovered through an indirect process. If you or your staff have any questions regarding this memorandum, please contact Mr. Steven R. Stier, Director of the Technical, Audit, and Business Services Division, at (517) 373-4010 or your OFM agency liaison accountant.

Approved:

Mary A. Lannoye
State Budget Director

cc: J. Phipps
N. Duncan
Budget Office Directors
Chief Accountants